

The Financial Condition of the American Hospital System:

**Better Times May Be Ahead ...
But, When ?**

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**Presentation at the Seminar of The Health of New
Hampshire's Community Hospital System**

December 13, 2000

**While Hospitals Are
Still In The Middle Of
A Hurricane ...**



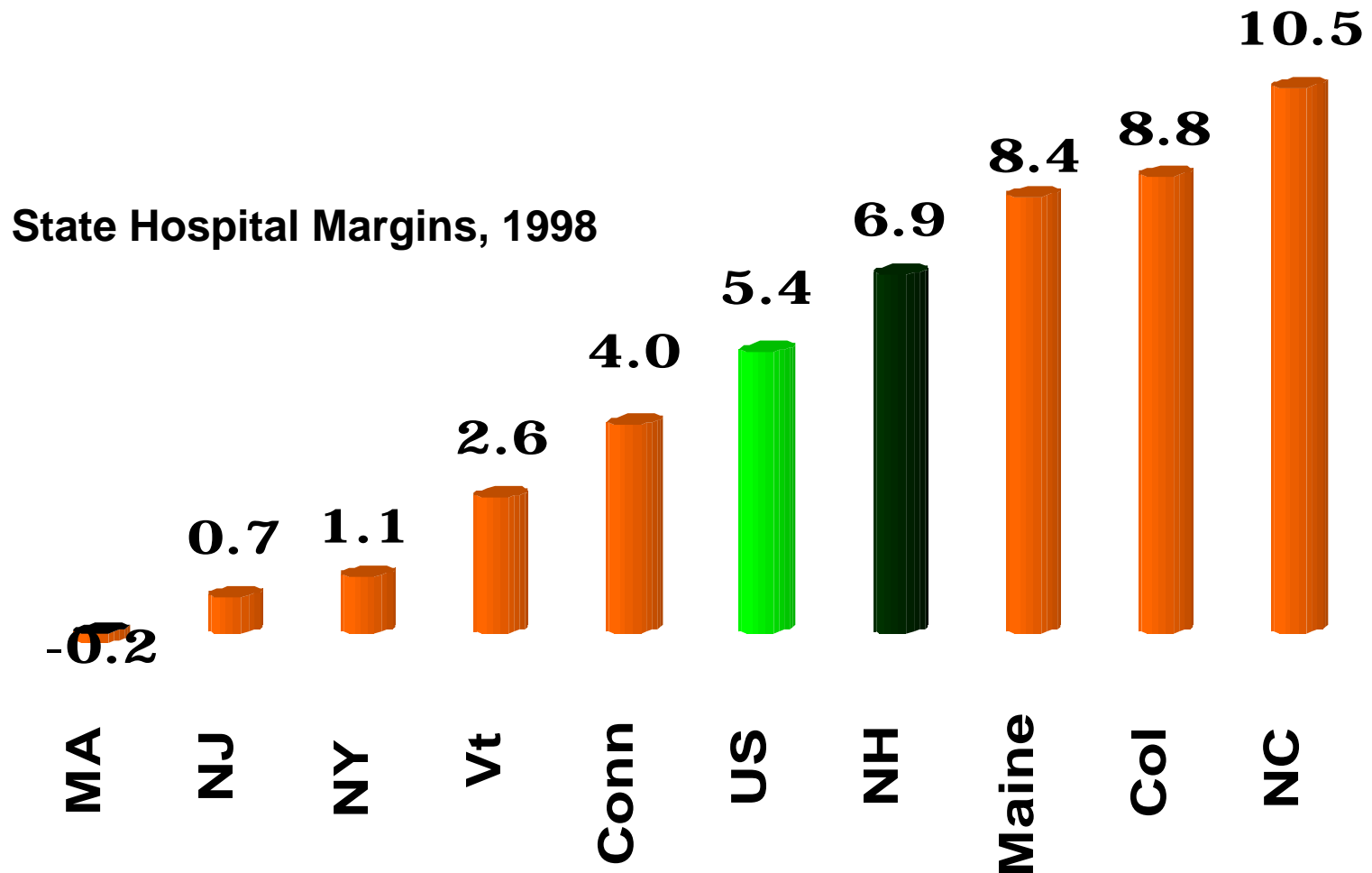
Blue Skies May Be Ahead



Overall, The Relative Financial Status of New Hampshire Hospitals Is About Average

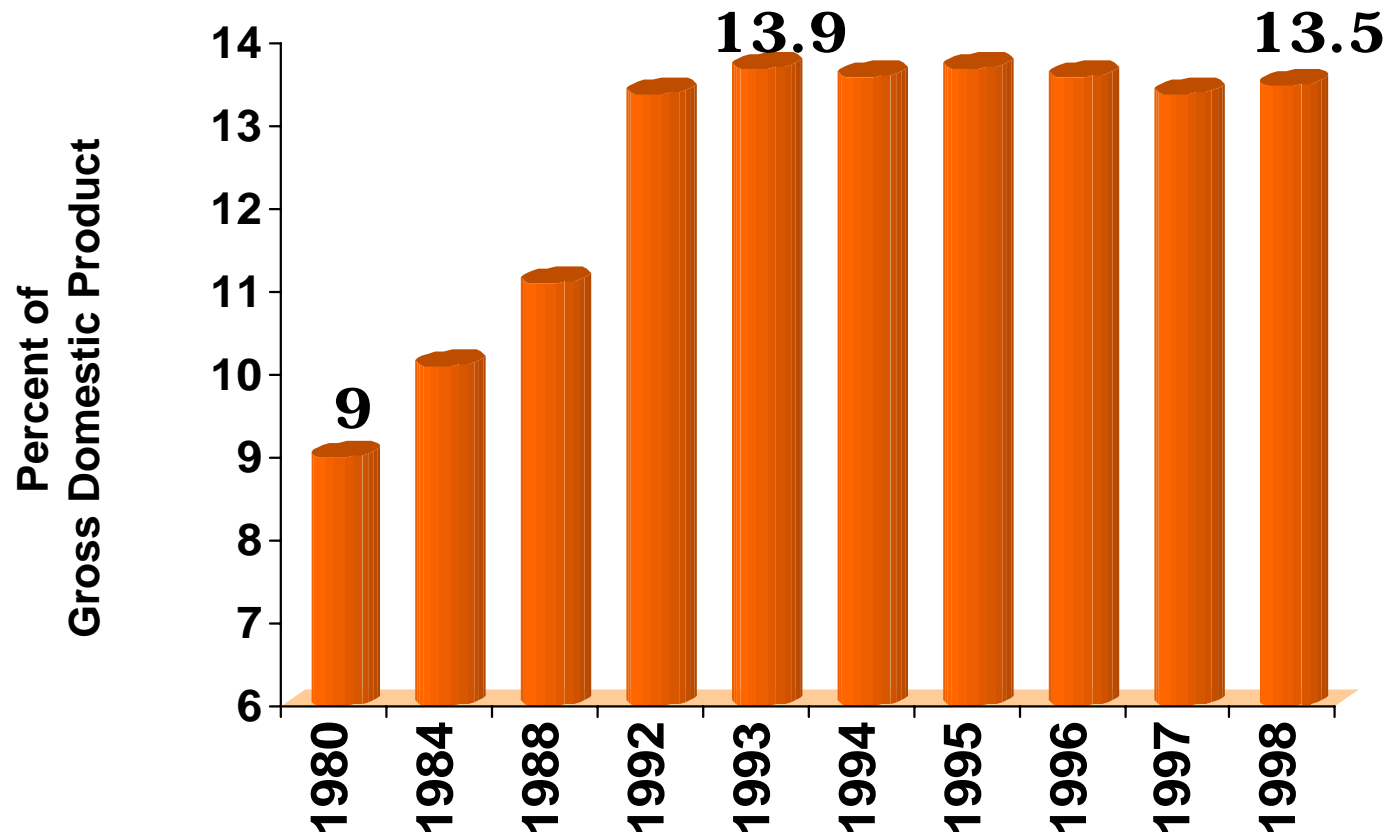
- Average hospital margins of New Hampshire hospitals in 1998 were higher than US average (6.7 versus 5.8), but...
- 20 states had higher margins than those in New Hampshire, and
- 20 states had lower margins,
- The remainder were too close to call

A More Detailed Look At The Financial Status of Hospitals In New Hampshire Compared to Other States

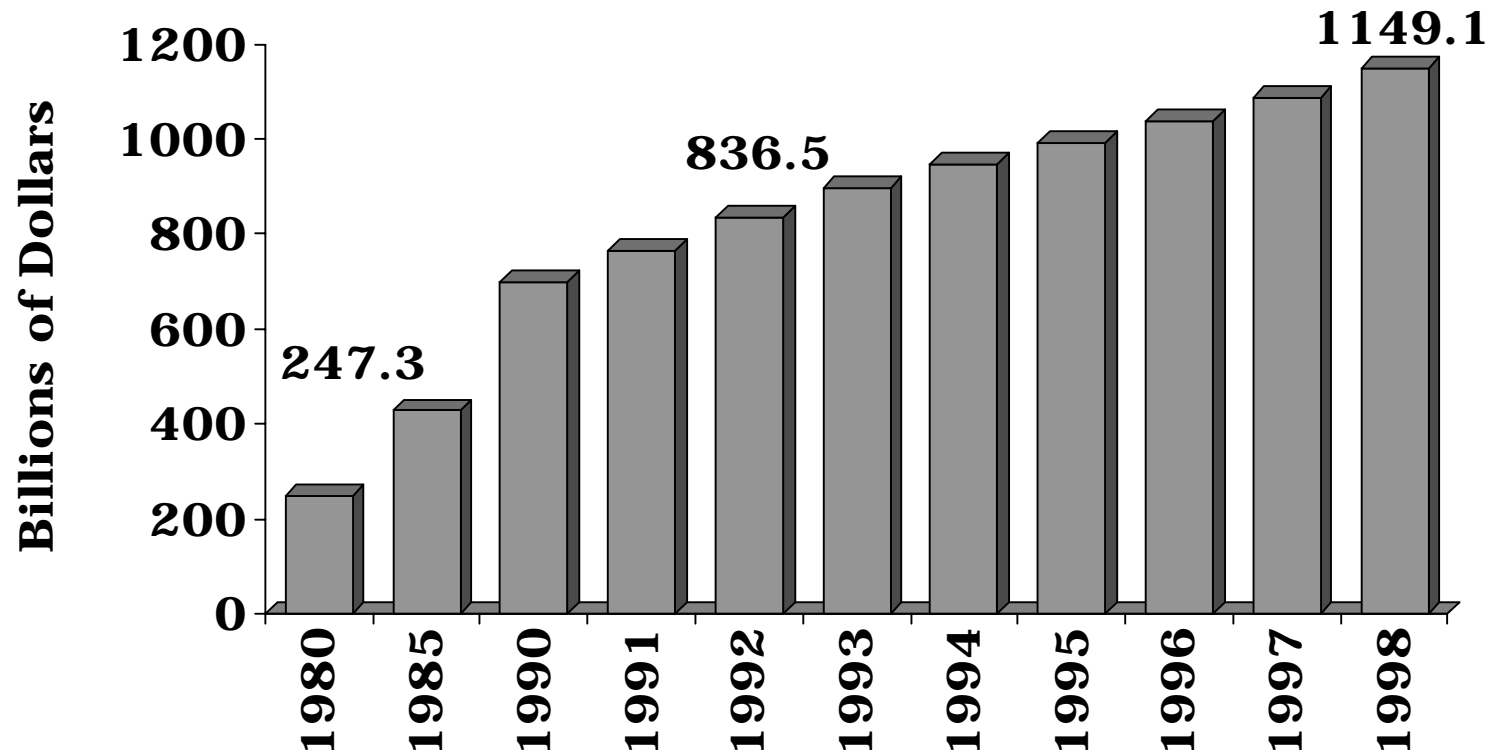


**But that was 1998,...what
about the future?**

Health Care as a Percentage of GNP Was Relatively Steady Through Most of The 1990's

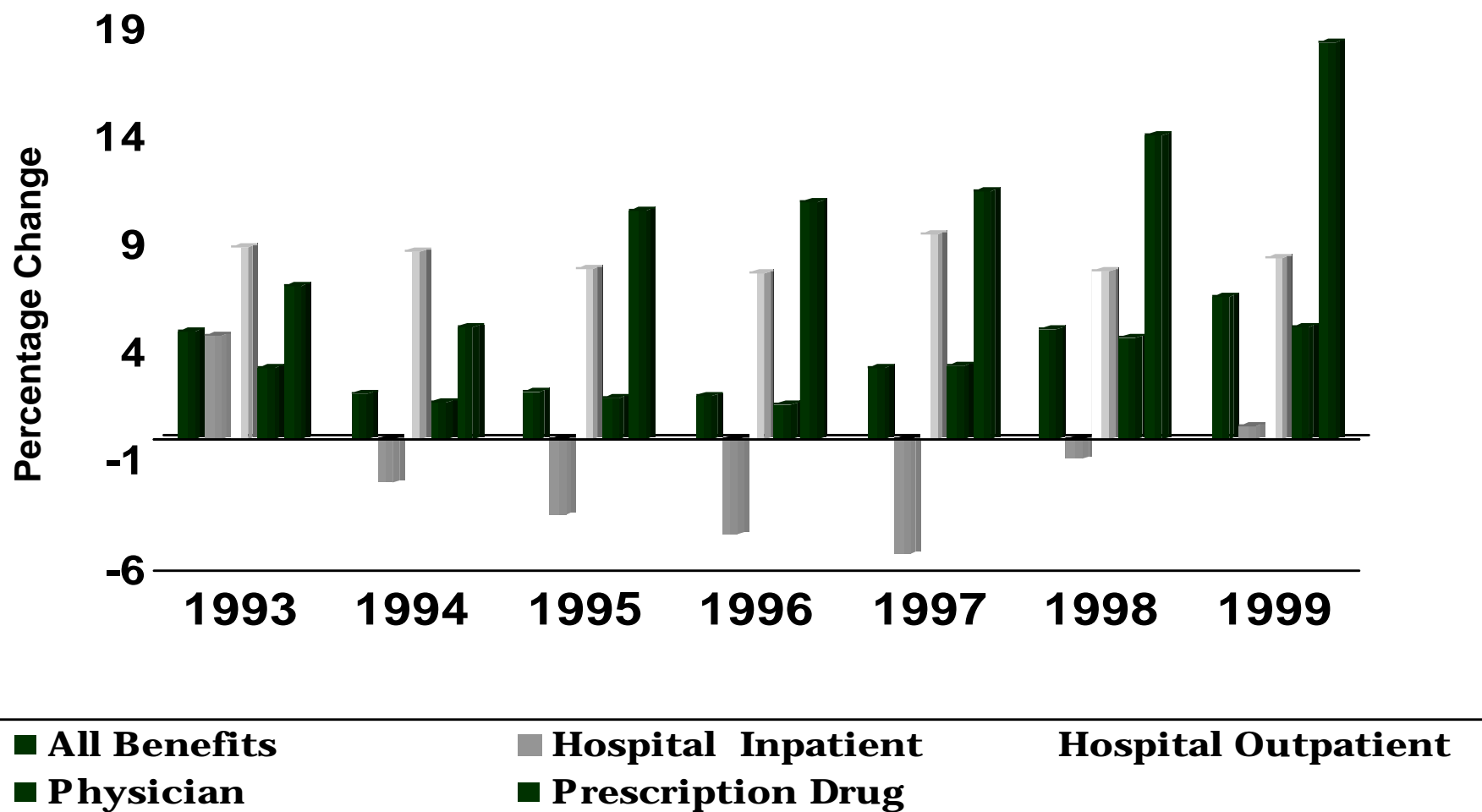


Even in 1990's Some Additional Spending For Health Care Did Occur



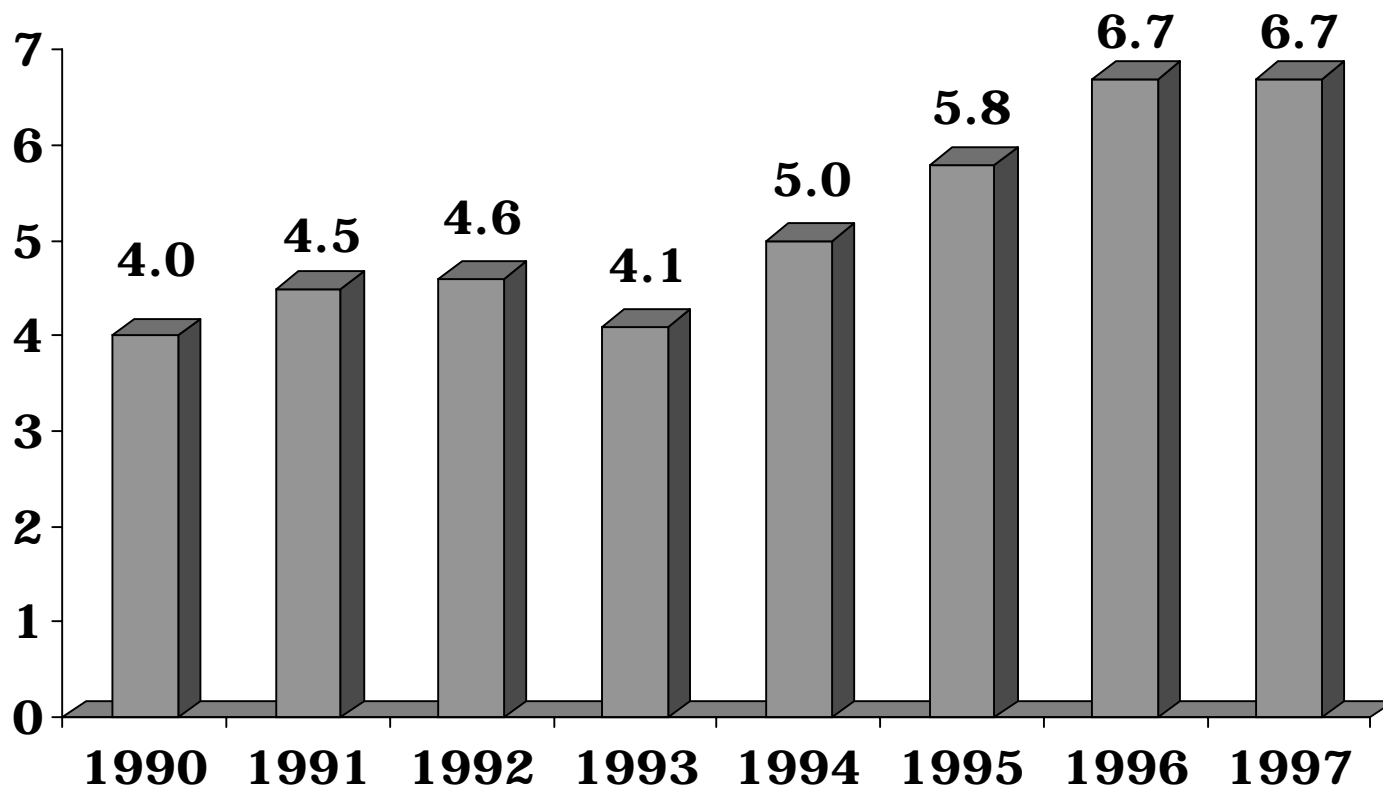
But Where did the Money Go???

Where Has Private Health Care Spending Gone?



**Surprisingly, During These
Tough Times Most Hospitals
Prospered**

Total Hospital Margins 1990 to 1997



But Then,---The Government passed the Balanced Budget Act



*Let me
explain...*

What's that?



**Don't Worry The Pundits
Said,---“Government Always
Understates the Costs of New
Programs and Overstates the
Savings of Its' Cost
Containment Efforts”**

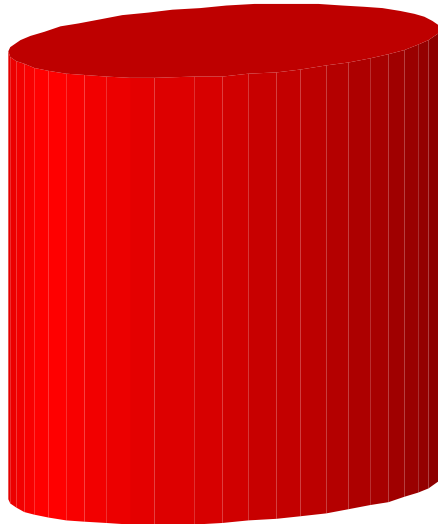
**...So What Happened With the
1997 Balanced Budget Act?**

What Happened?

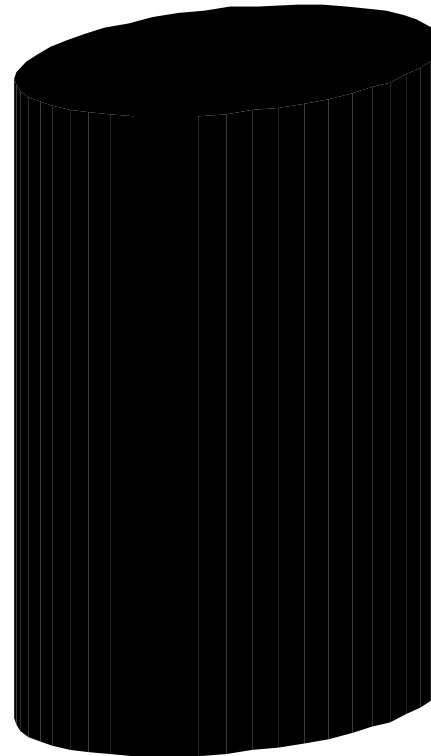
**Savings from the BBA
1998 – 2002**

\$227b

\$115b



Expected



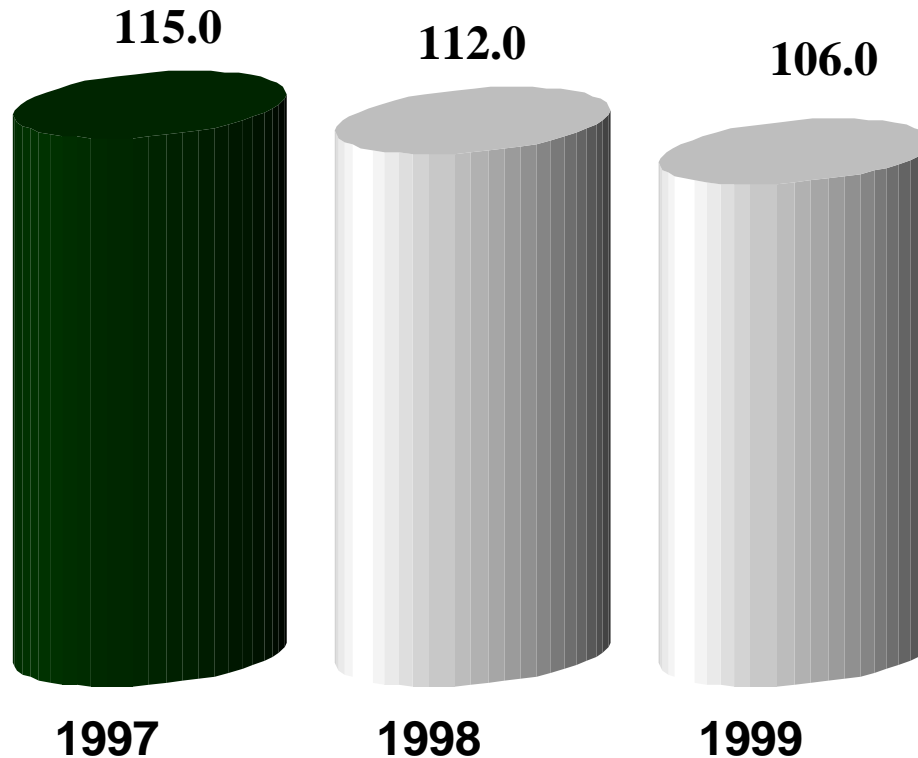
Actual

With Such Savings---

***Is it Possible That Medicare
Actually Spent Less Money
Last Year Than it Did Two
Years Ago?***

Total Medicare Part A Spending:

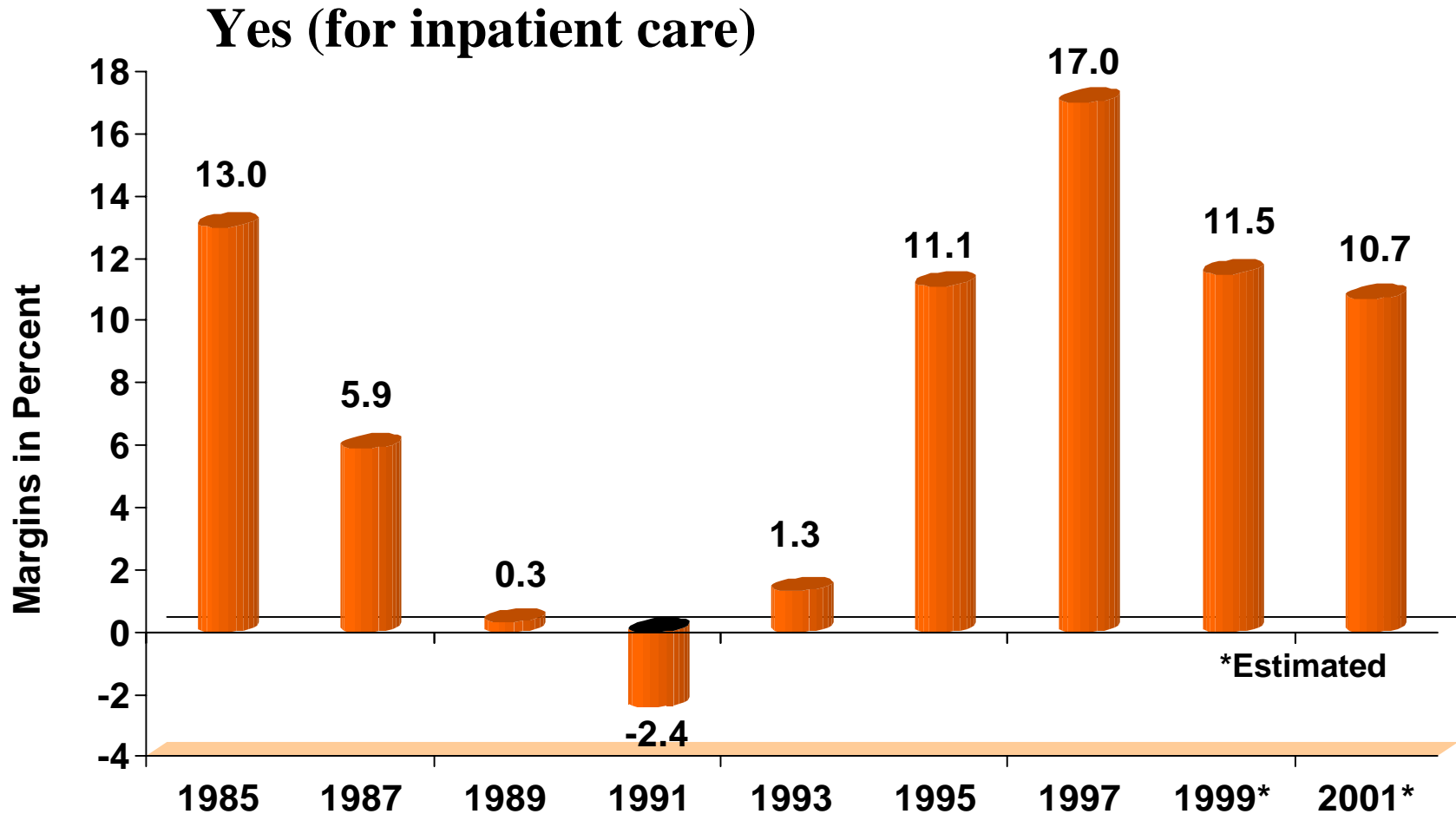
(in billions)



And This Outcome Includes...

- Growth in number of beneficiaries of 2% a year
- Medical inflation at 4% to 6% per year

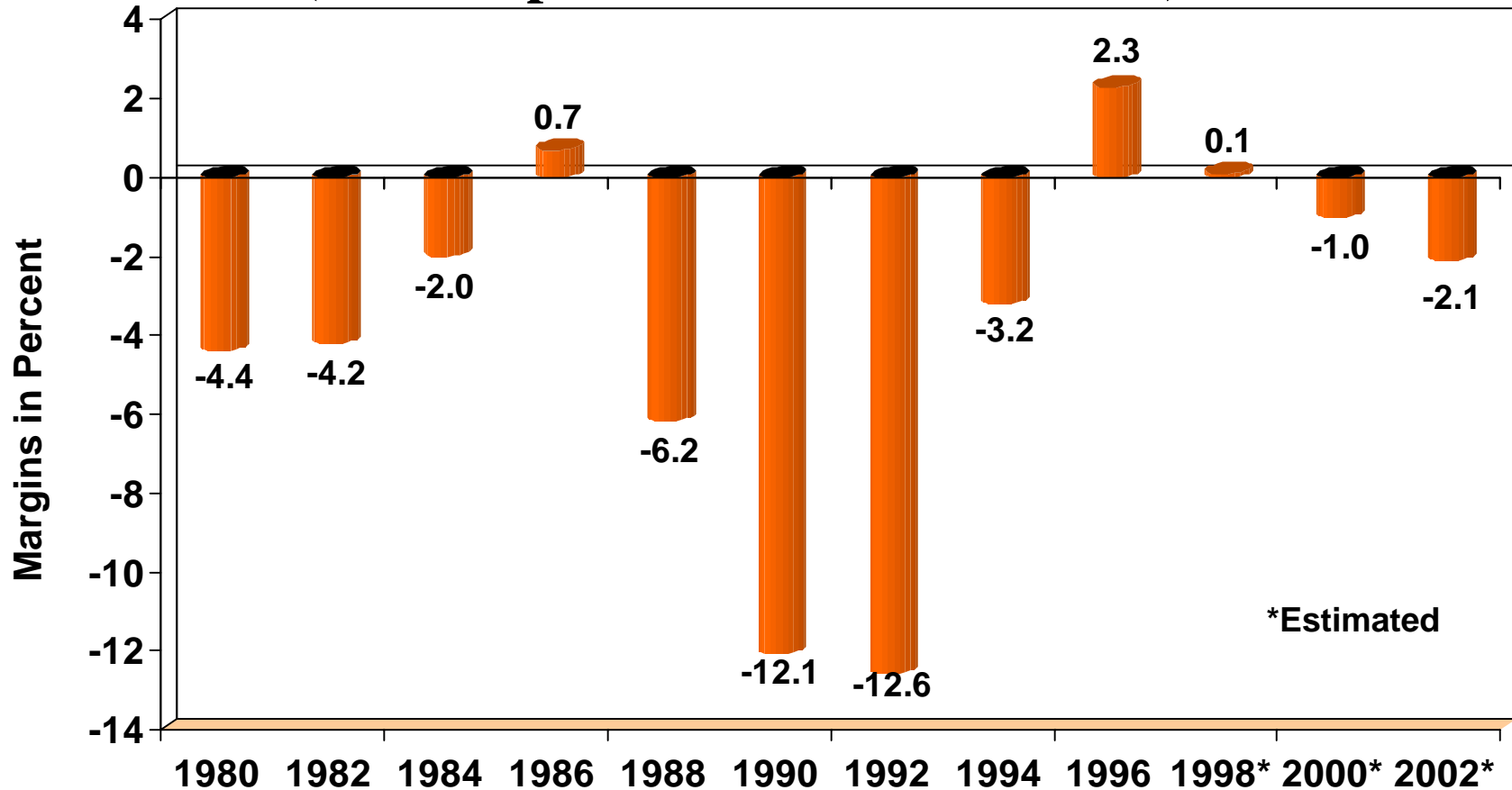
Does Medicare Pay Hospitals Adequately?



Source: Urban Institute analysis of Medicare Cost Report data

Does Medicare Pay Hospitals Adequately?

No (if all hospital services are included)



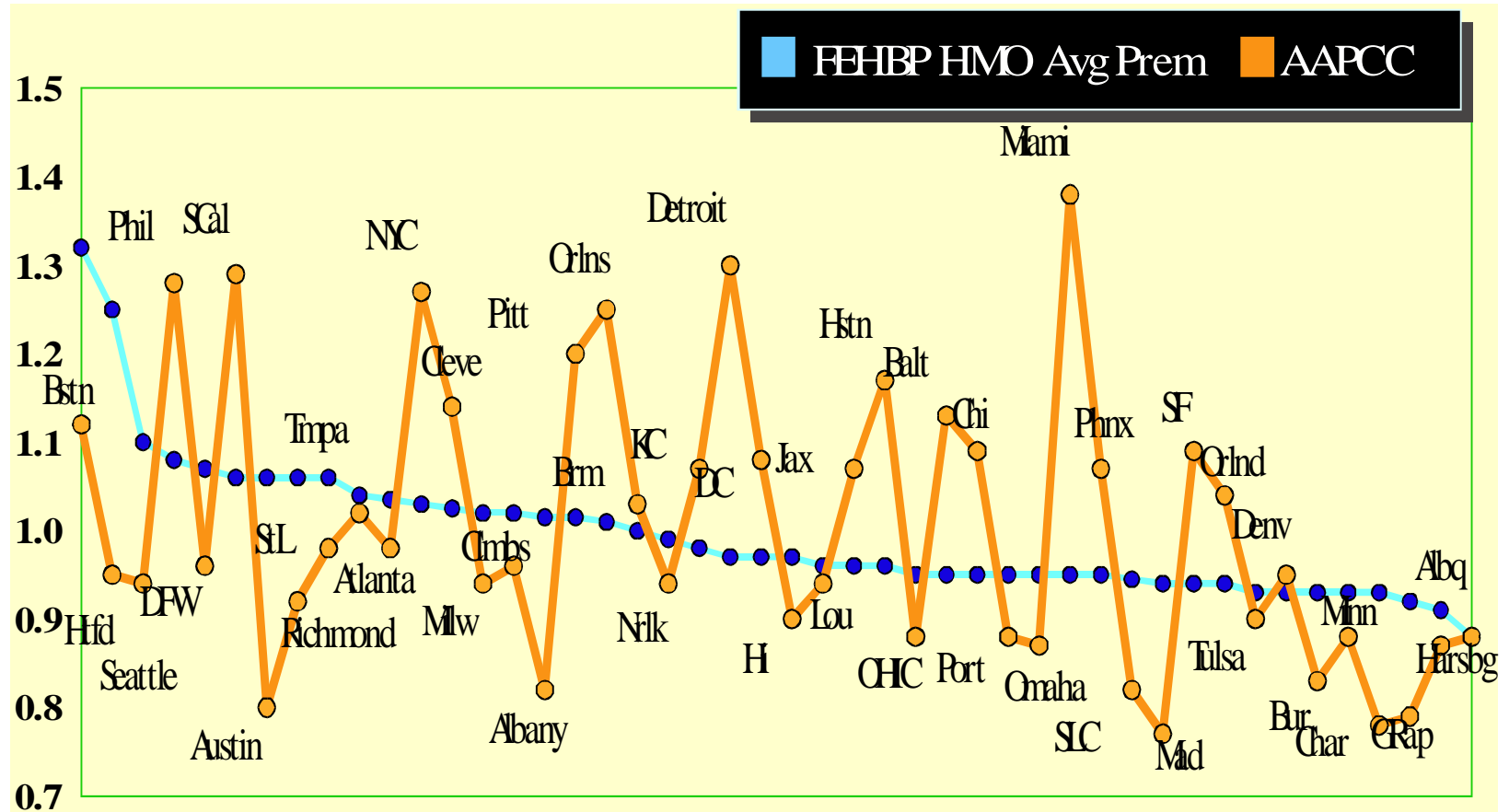
**And The Balanced Budget
Did More Than Just Cut
Medicare Spending**

It Set In Motion The

The Battle of the “Haves”

and the “Have Nots”

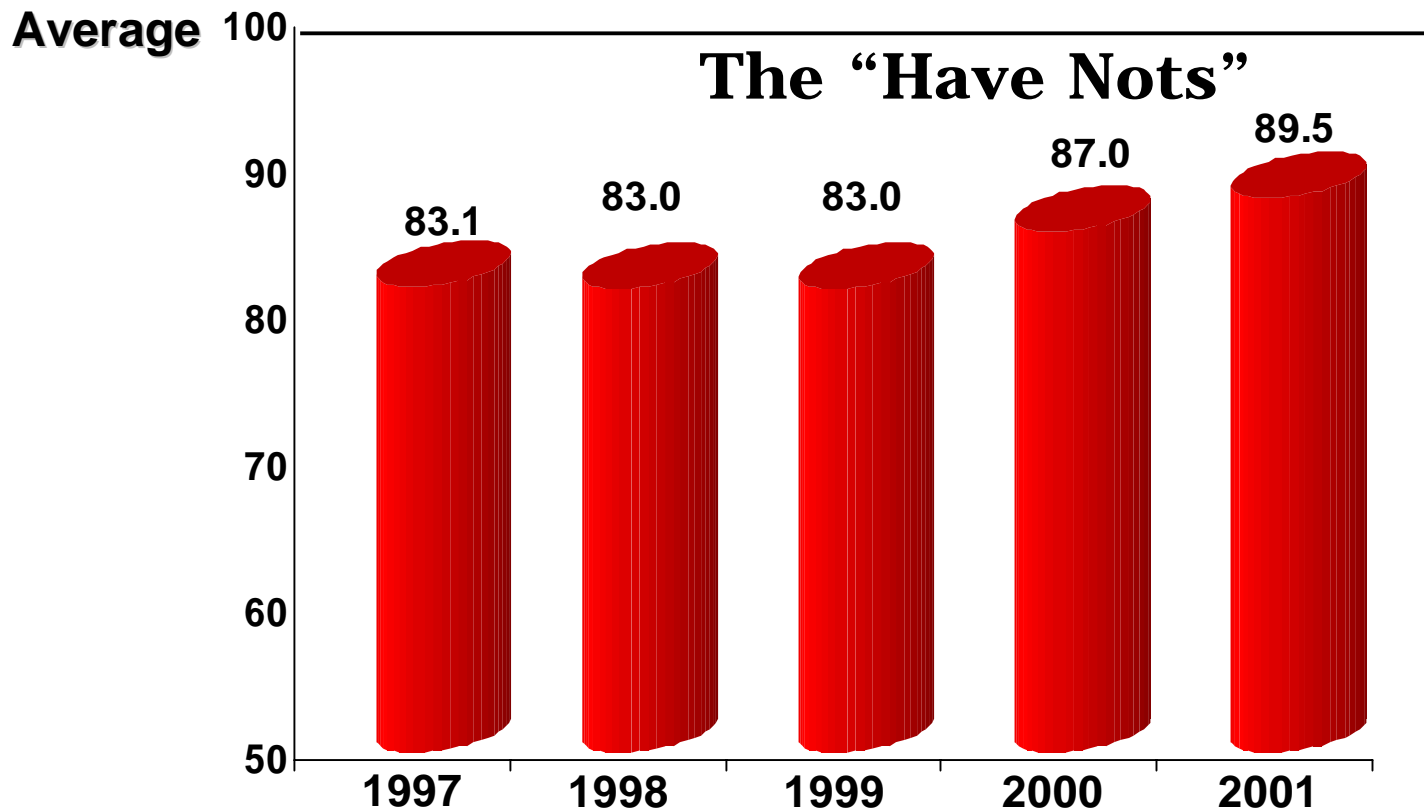
FEHBP HMO Average Premiums and AAPCC



Source: Unpublished analysis of Stuart Schmid

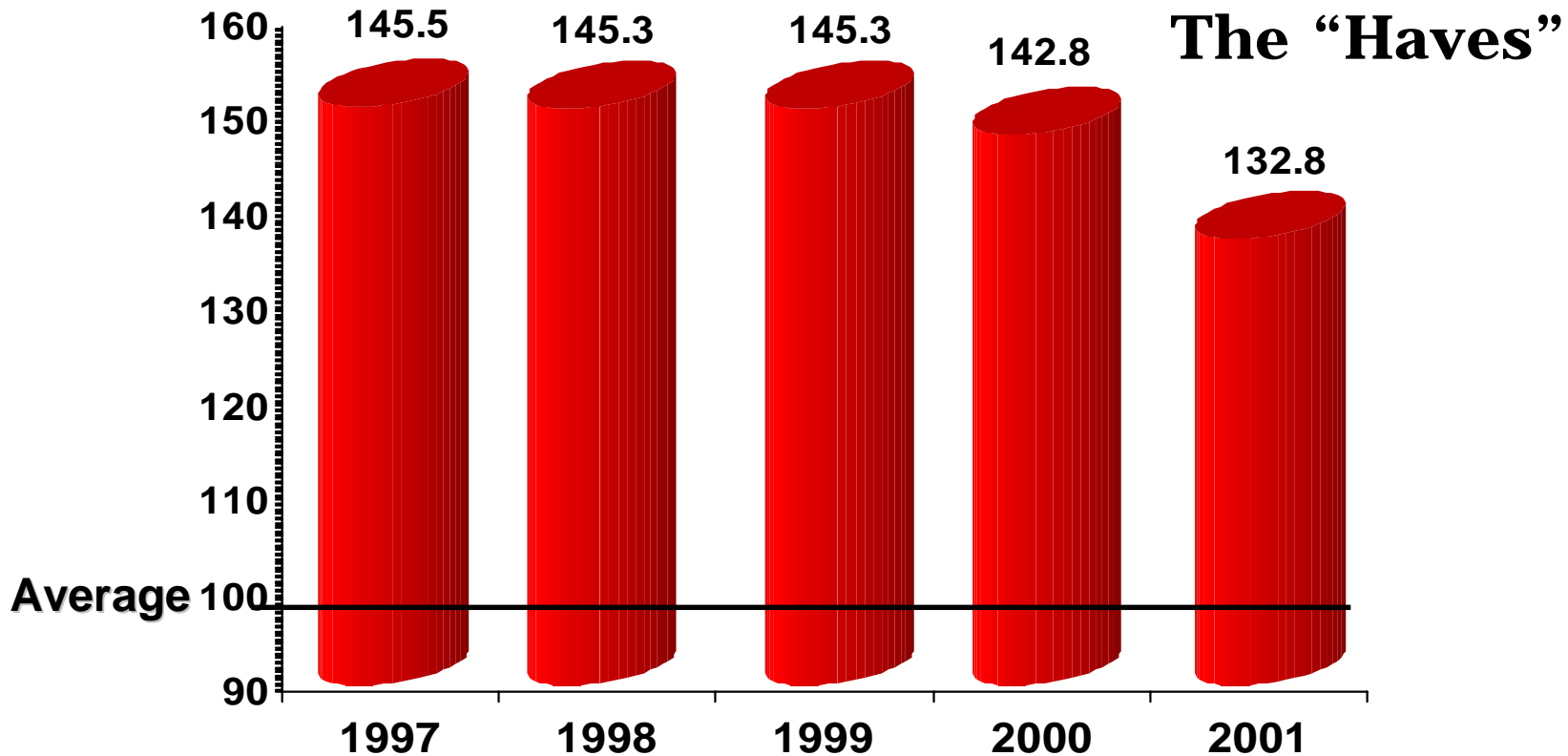
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Area Medicare & Choice Payments In Relation to Average U.S. Payments



The “Have Nots”: Minneapolis, MN; Portland, OR; Seattle, WA

Area Medicare+Choice Payments In Relation to Average U.S. Payments



The “Haves”: Los Angeles., CA.; Miami, FL; Staten Island, NY

At This Point We Should Discuss “Fairness”

Is It Fair To Pay - - -

- All Medicare+Choice Plans the same amount regardless of what Medicare pays in its traditional market in that area

or

- Varying amounts to different areas in relationship to what Medicare pays in its traditional market

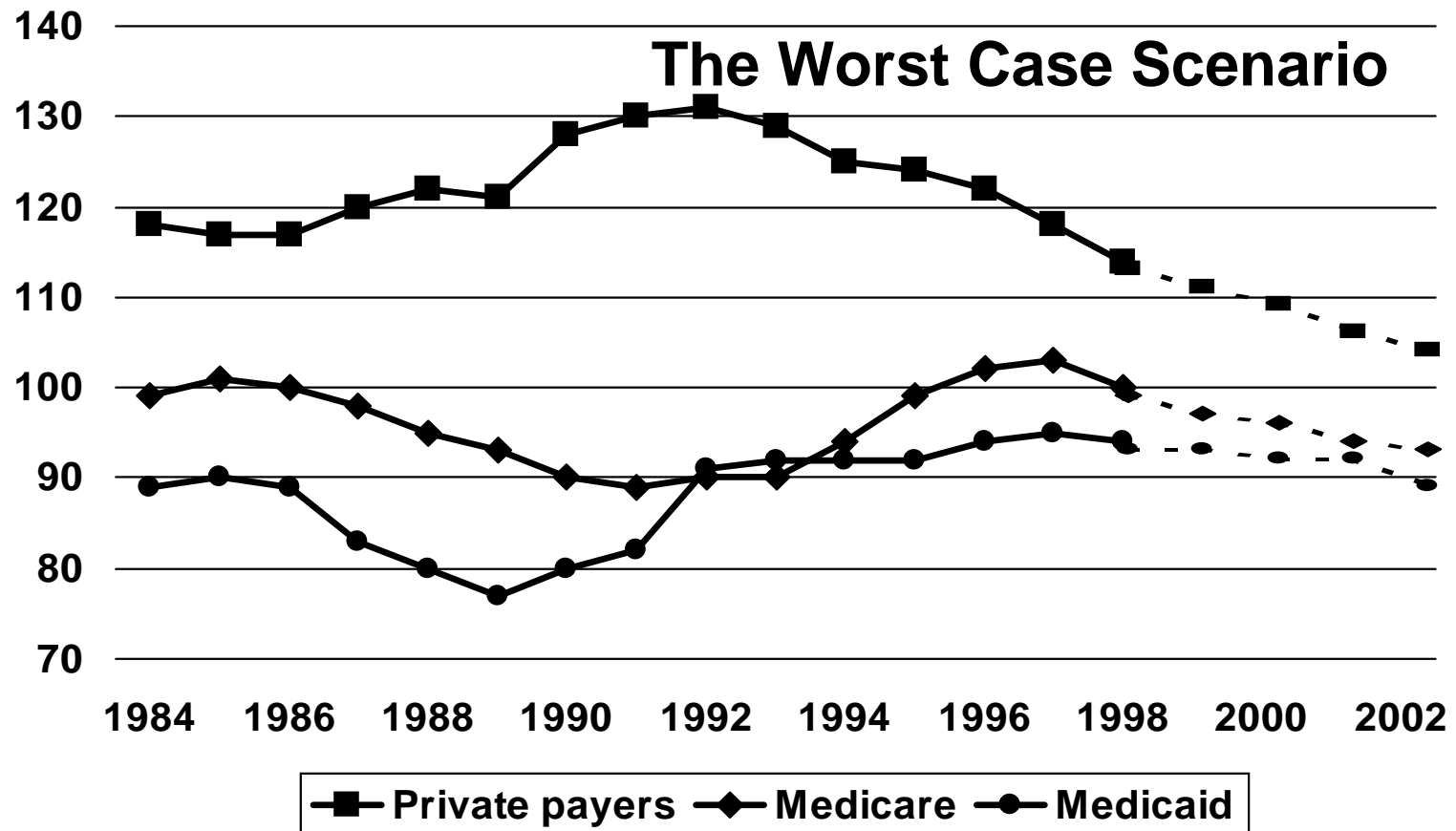
**Lets Return To The Plight of
Hospitals!**

**Will the Private Payment
To Cost Relationship
For Hospital Services – –**

**Return to Earlier
Levels or – –**

**Continue Its'
Downward Slide?**

How Well Are Hospitals Paid by Various Payers

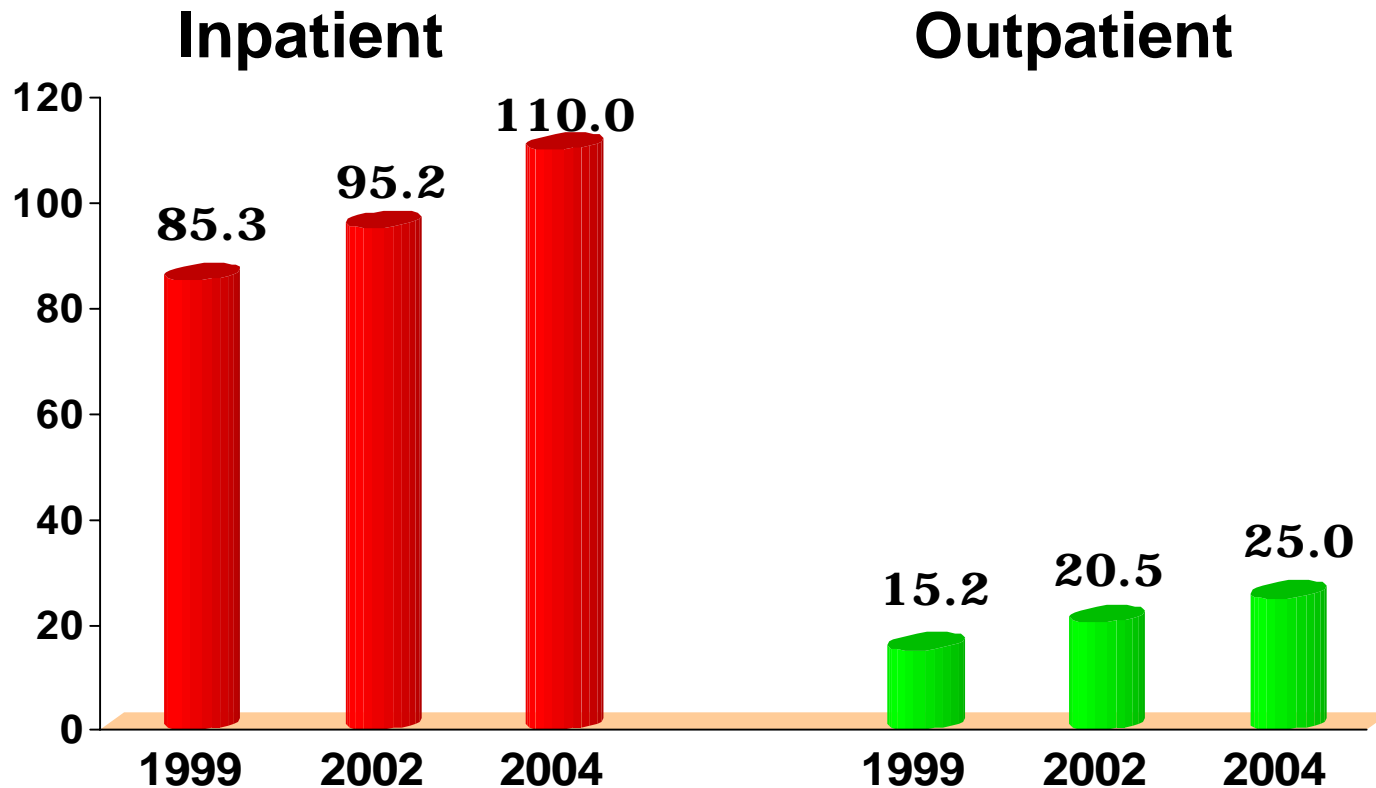


But The Situation Could Improve

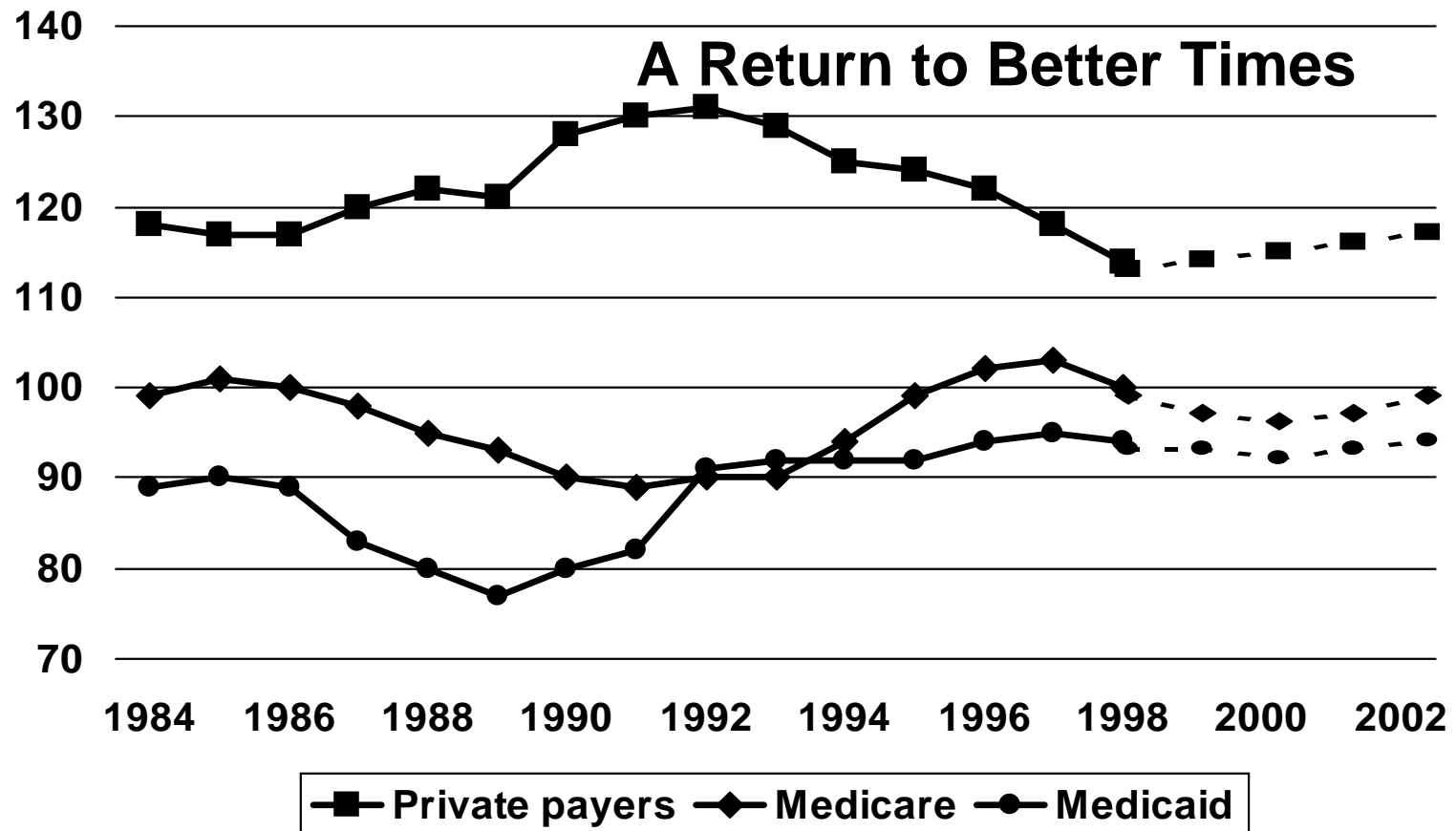
if...

- Further give backs from BBA
- No new reductions after 2002
- Growth in private payments

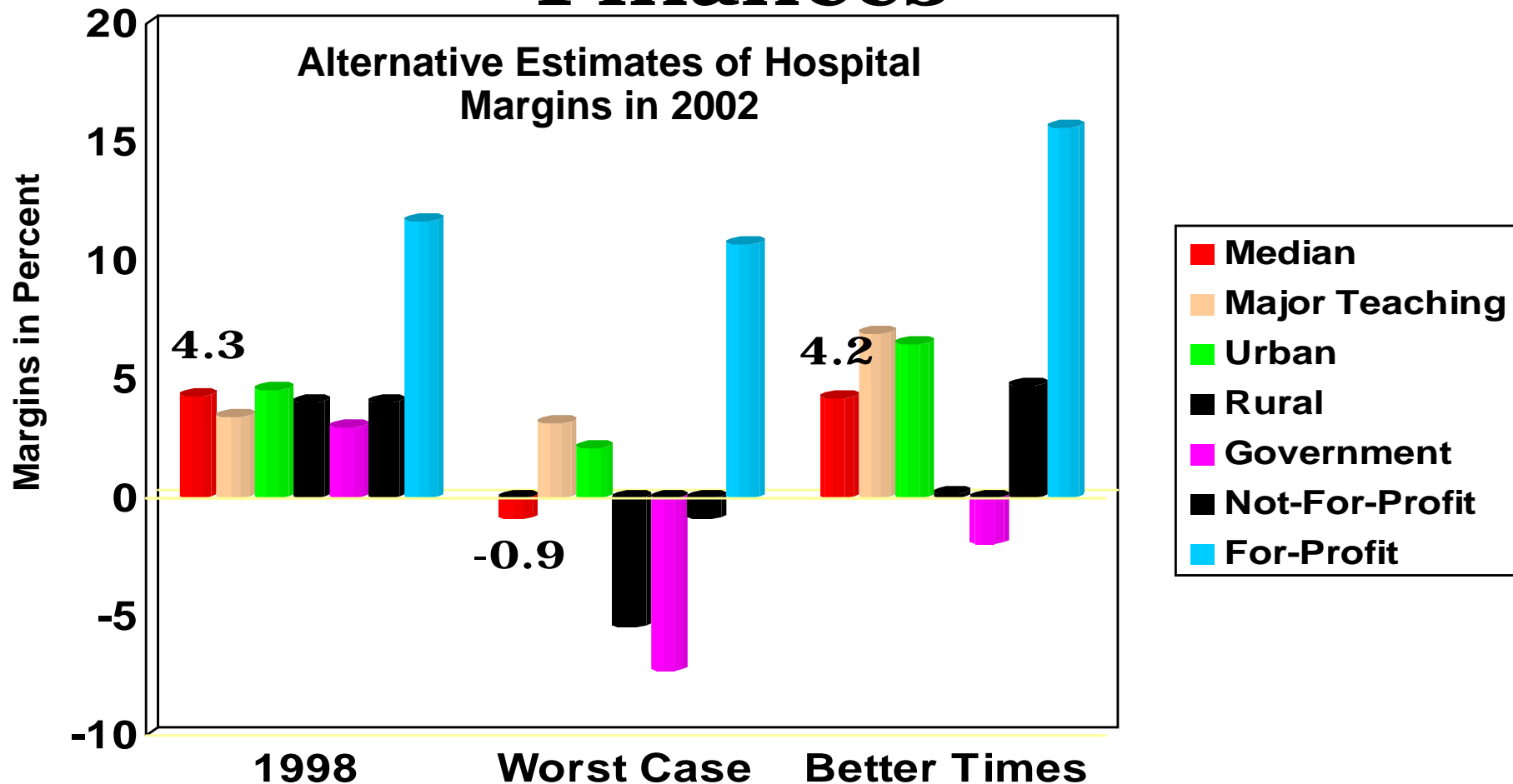
Future Growth In Medicare Payments



How Well Are Hospitals Paid by Various Payers



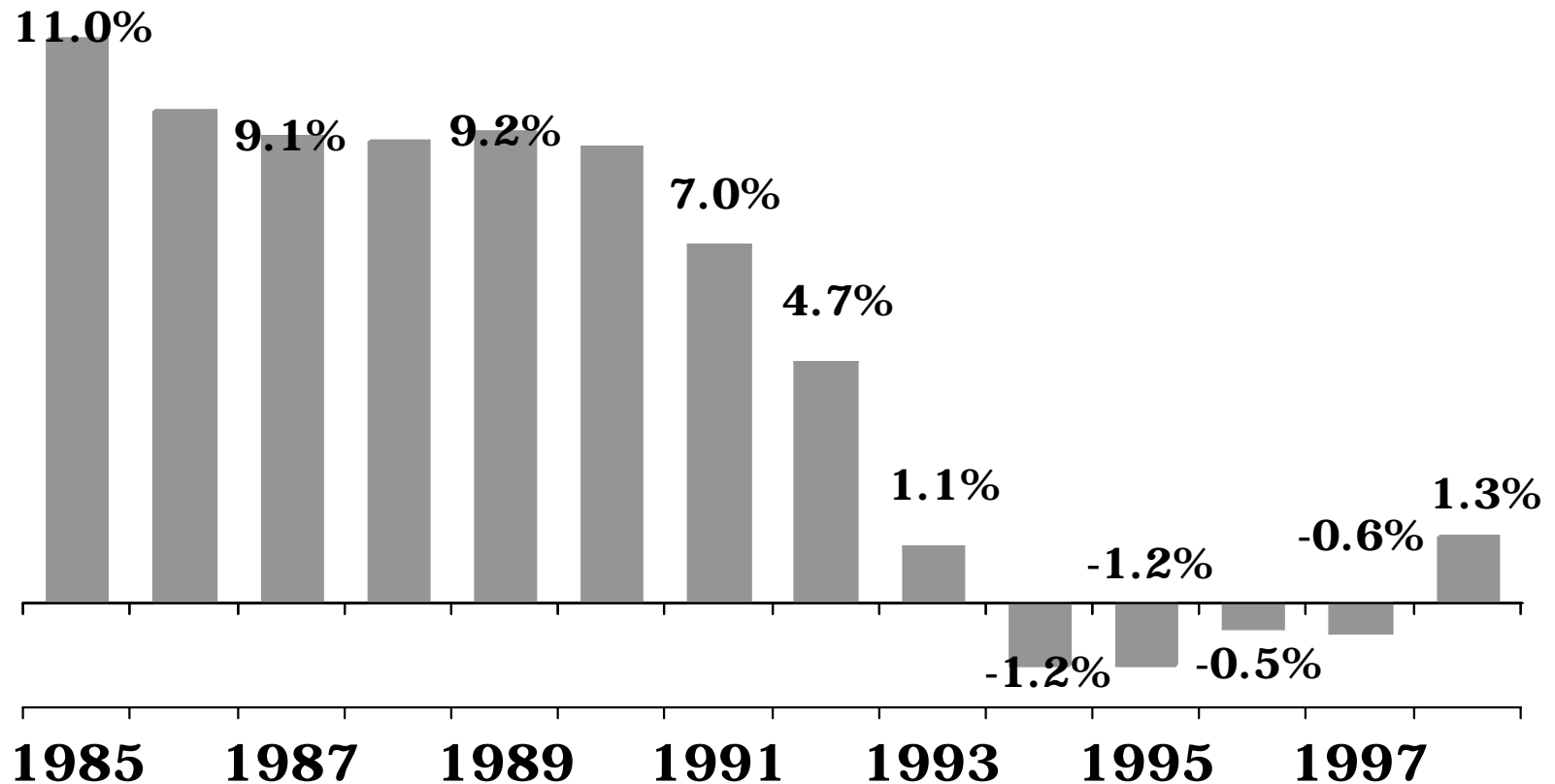
The Future of Hospital Finances



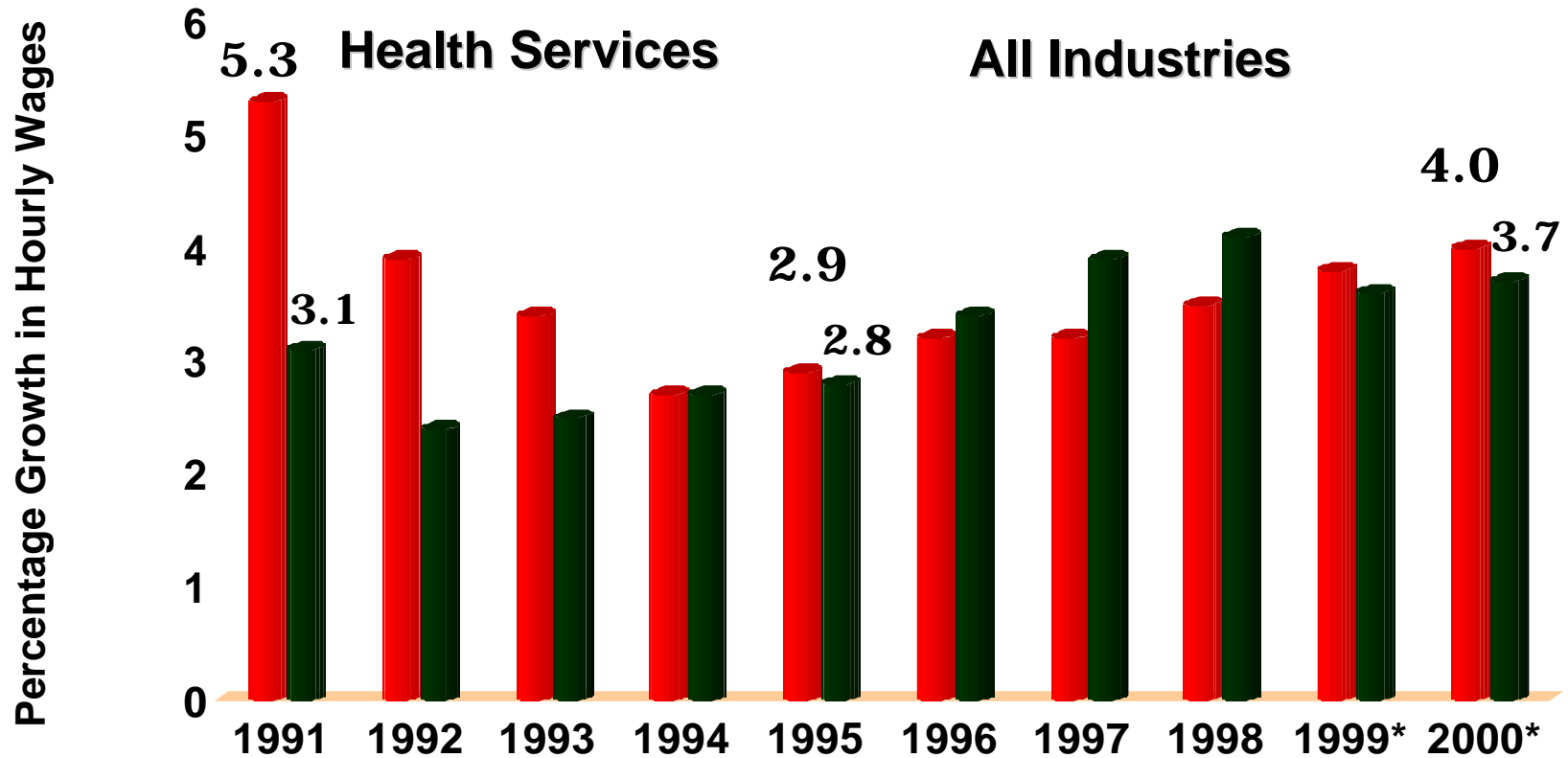
**But There Could Be Problems
Ahead---**

What Is Happening To Hospital
Costs?

Can Hospitals Continue to Control Their Cost Growth



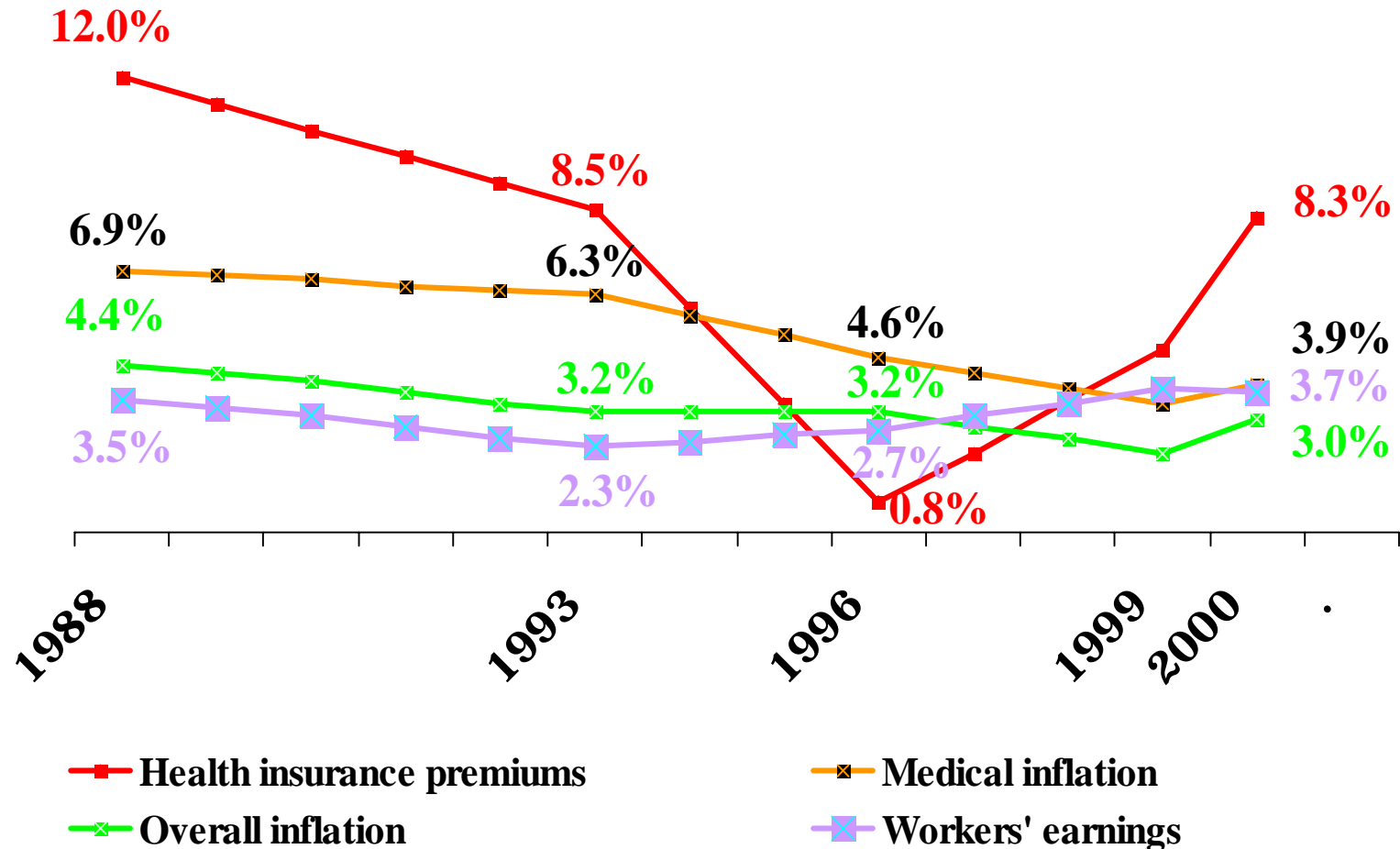
Wage Trends in Health Care Versus All Industries



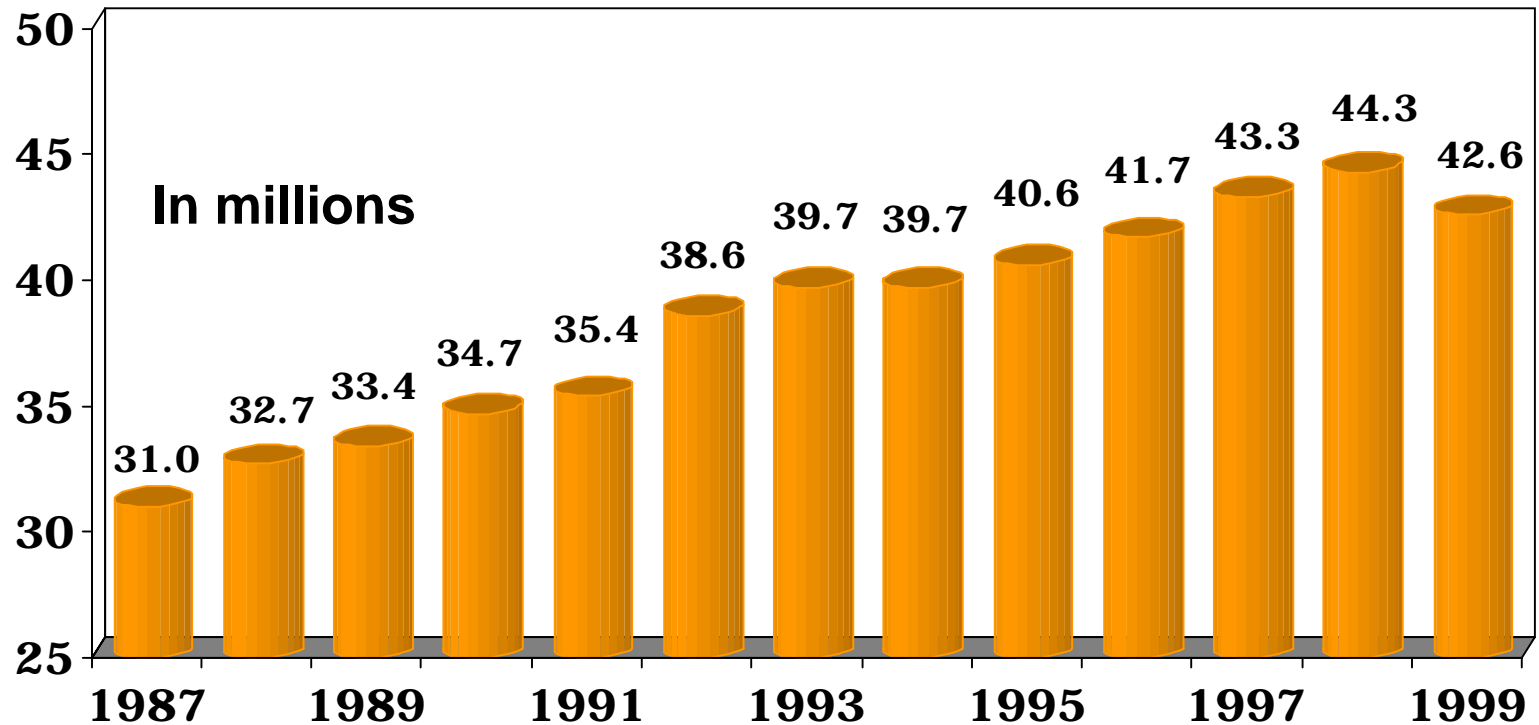
*estimates

And, What About Rapid Inflation of Health Care Spending

Increases in Health Insurance Premiums Compared With Other Indicators, 1988-2000



While The Number of Uninsured Has Fallen For The First Time: It Could Increase In The Future



**What will happen if the economy
falters???**

Source: U.S. Census Bureau

**But in the Short-Run With
Respect To Hospital
Financial Conditions,.....**

***Blue Skies Do I
See***

